

Property Tax Principles, Indicators and Inventory

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Introduction to the Property Tax System

- Property is taxed according to value
- Predictable for government
- May not reflect ability to pay

A brief history of the property tax

- 1849: 1st Territorial Legislature enacts property tax
- 1913: Classification of property
- 1968-1972: 'Minnesota Miracle'
- 2001: 'Big Plan'

Administering and monitoring the system

- **Administered by 87 counties**
 - 3,300 individual taxing jurisdictions
 - 2.5 million property parcels
 - Total market value of taxable property is \$580 billion
 - Over \$8 billion in tax revenue
- **Department of Revenue Oversight**
 - Equalization of local assessments
 - Monitoring compliance
 - Licensing, education and training
 - Research

Tax Principles

- Efficiency
- Simplicity
- Equity
- Stability
- Competitiveness
- Responsiveness

Efficiency & Compliance

The tax should maximize voluntary compliance, minimize economic distortions caused by tax-motivated behavior, minimize compliance and administrative costs.

- What are state and/or local administrative costs?
- What are taxpayer compliance costs?
- Can administrators easily make determinations?

Transparency, Understandability, Simplicity & Accountability

Taxpayers should understand how their tax is determined, which governmental unit is responsible for the tax and what services are funded by the tax.

- Is the system clear for taxpayers?
- for public officials?
- for administrators?
- Are decision makers identified?

Equity

*The tax should minimize regressivity (vertical equity).
The system should treat similar properties similarly
(horizontal equity).*

- Do tax burdens decrease or increase as income rises?
- Are similar properties or taxpayers taxed similarly?

Stability & Predictability

The tax should provide stable revenues over the economic cycle. Significant unexpected changes in tax laws, tax bills to taxpayers and revenues to governments should be minimized.

- Is system stable / predictable for taxpayers?
- For public officials?
- For administrators?

Competitiveness for Businesses

The system should minimize any competitive disadvantage of the state relative to other states and nations.

- Does tax harm ability of Minnesota businesses to compete?
- Consider services funded by the tax as well.

Responsiveness to Economic Conditions

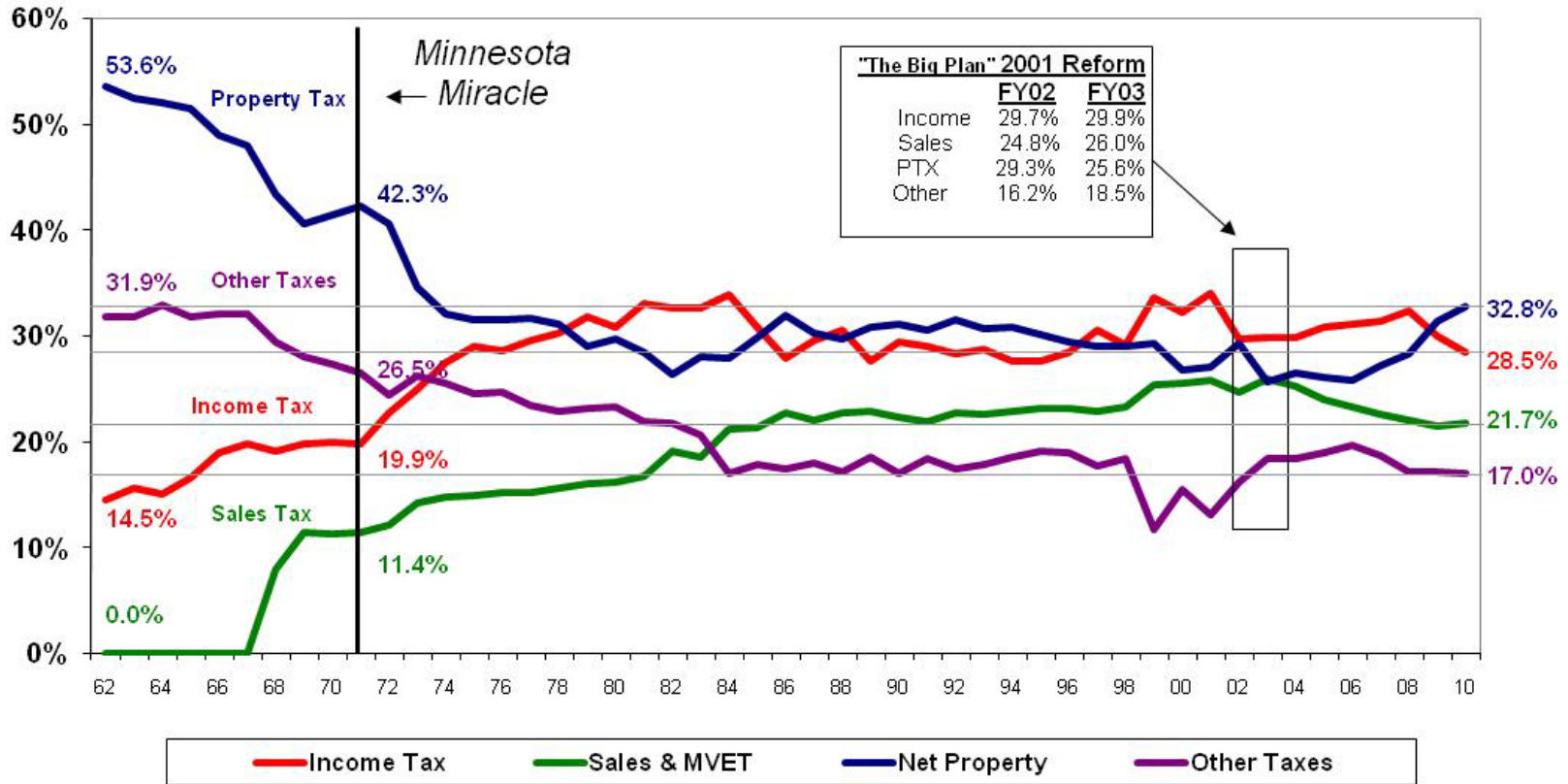
Tax should change with changes in value. Lags in system between a market change and a corresponding tax change should be minimized.

- Does tax change with value in a timely way?
- Are data for aid, credit and refund formulas current?

Major Indicators

Price of Government Report

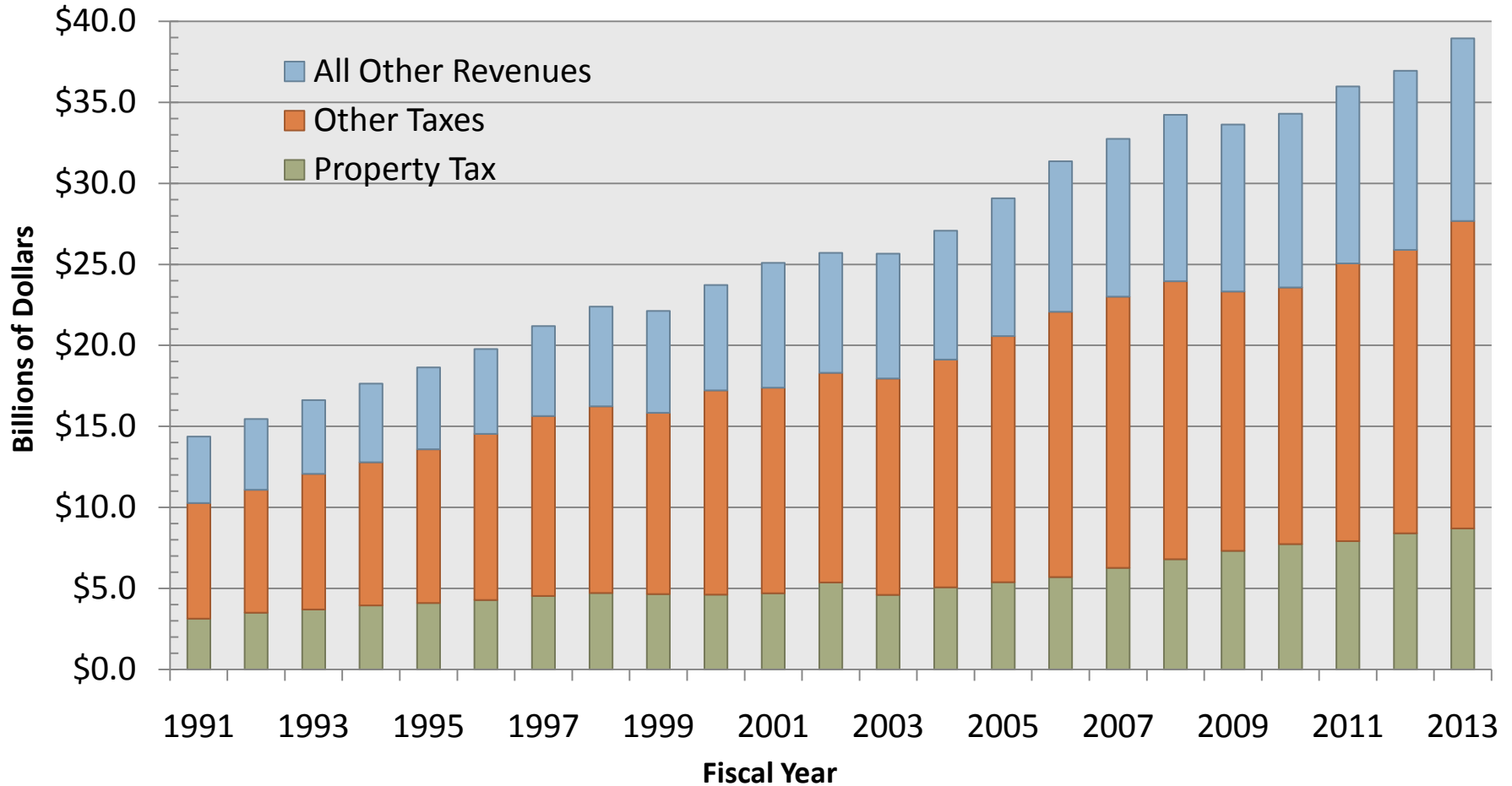
History of Major Taxes Percent Share FY 1962 - 2010



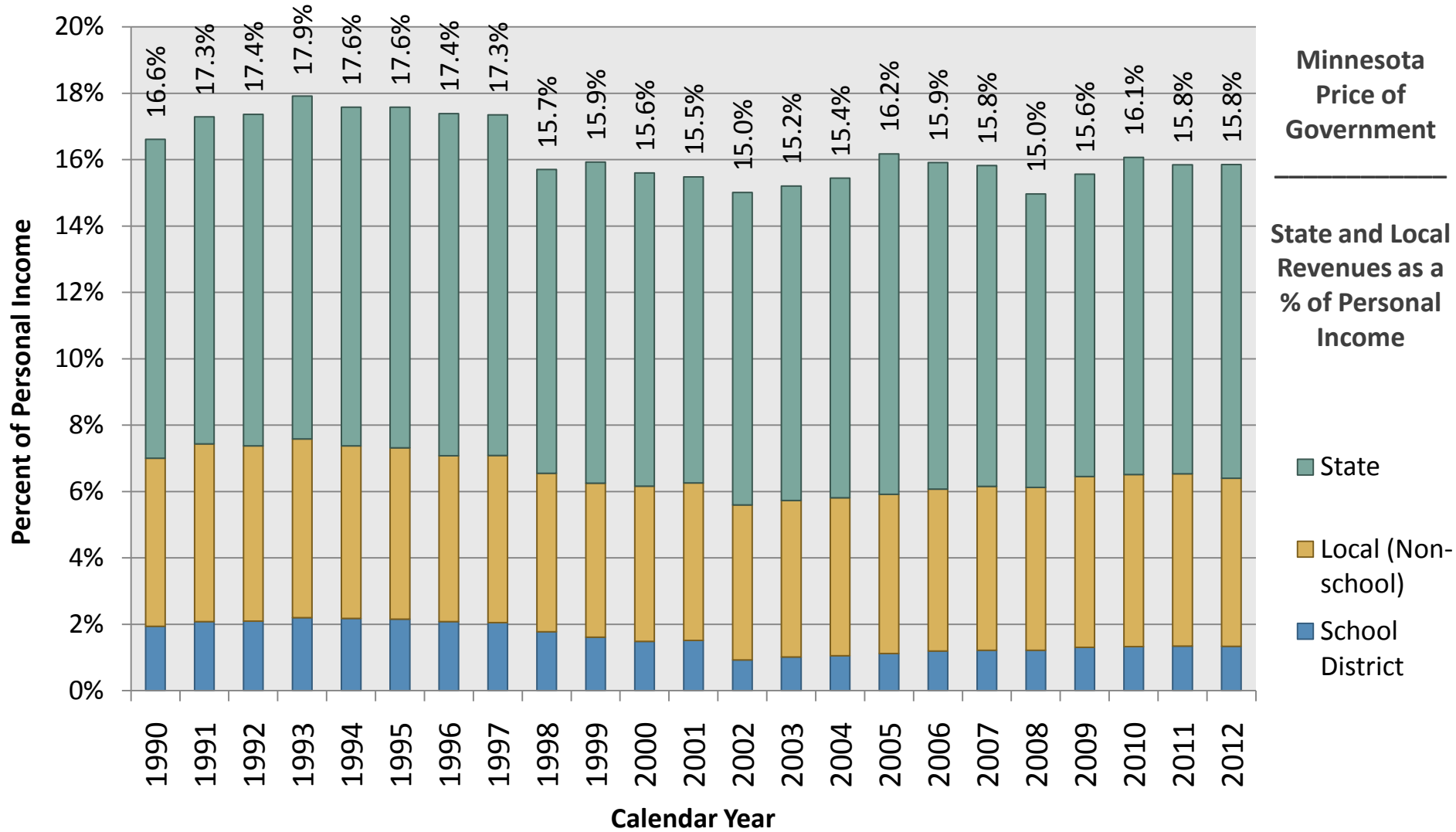
Source: Minnesota Department of Revenue and
Price of Government, End of Session 2010
Includes sales tax rebates FY 1999-2001

Price of Government Report

Total Own Source Revenues for State & Local Governments

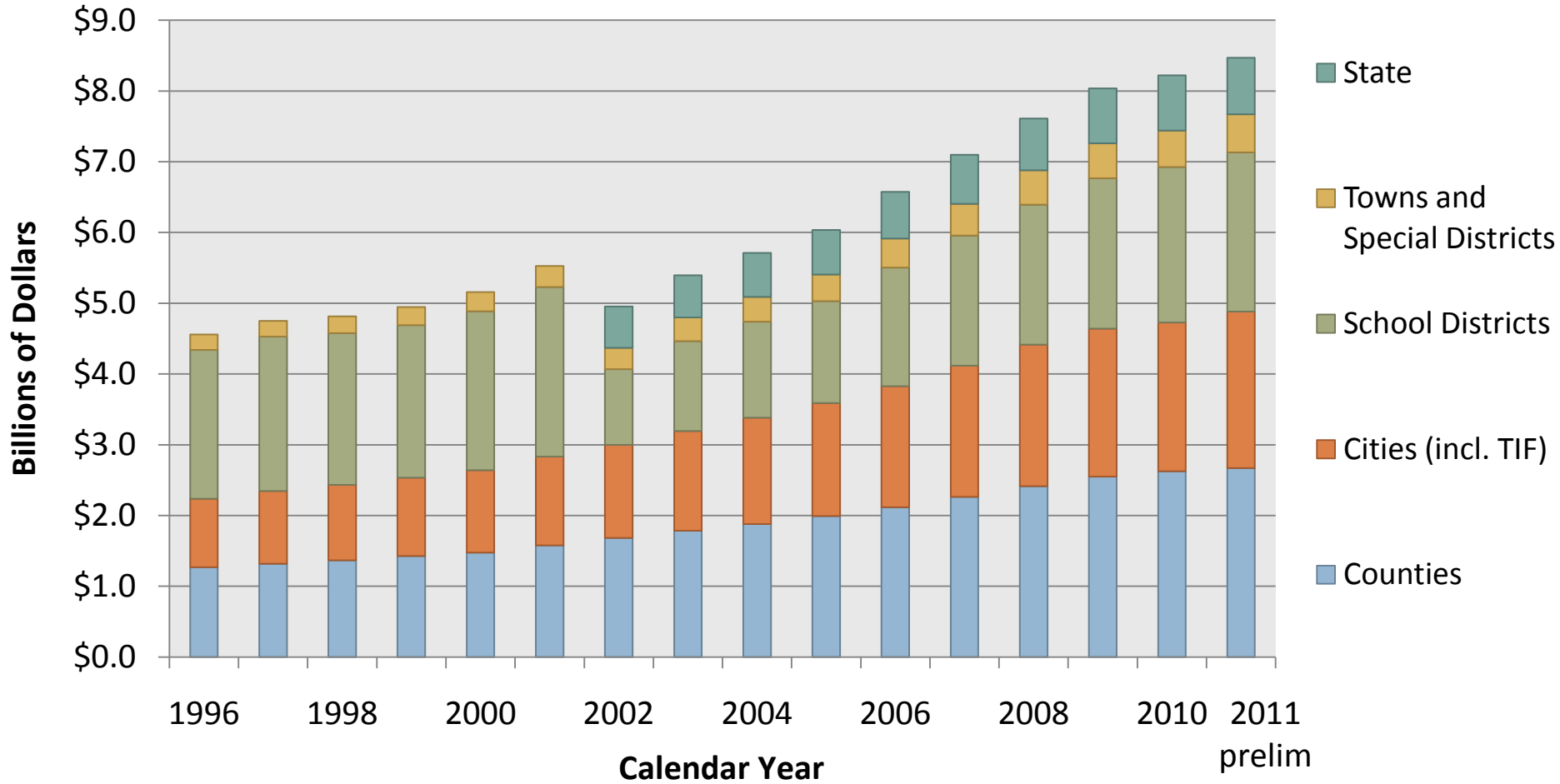


Price of Government Report



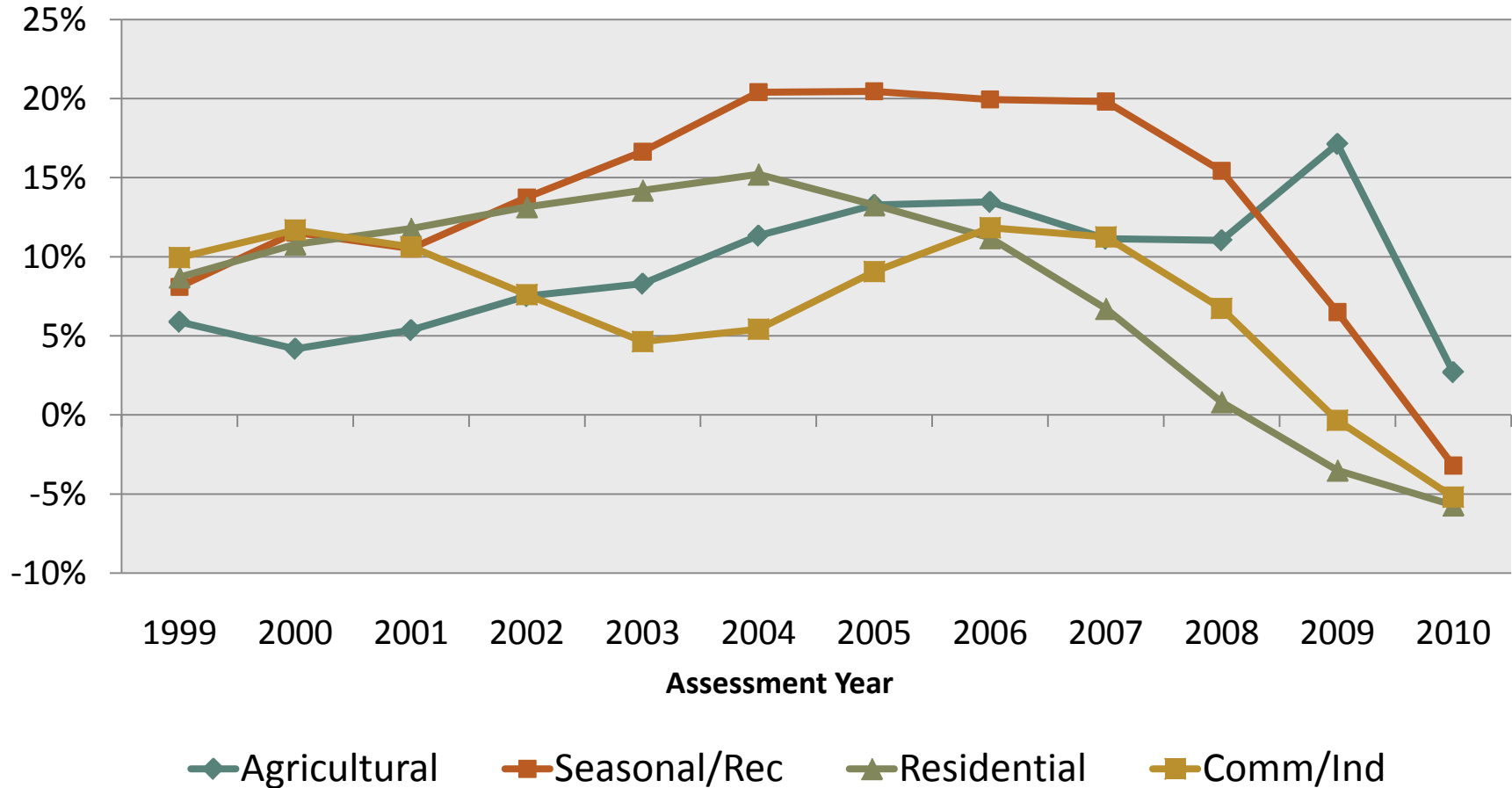
Property Tax Levies

Property Tax Levies by Jurisdictions



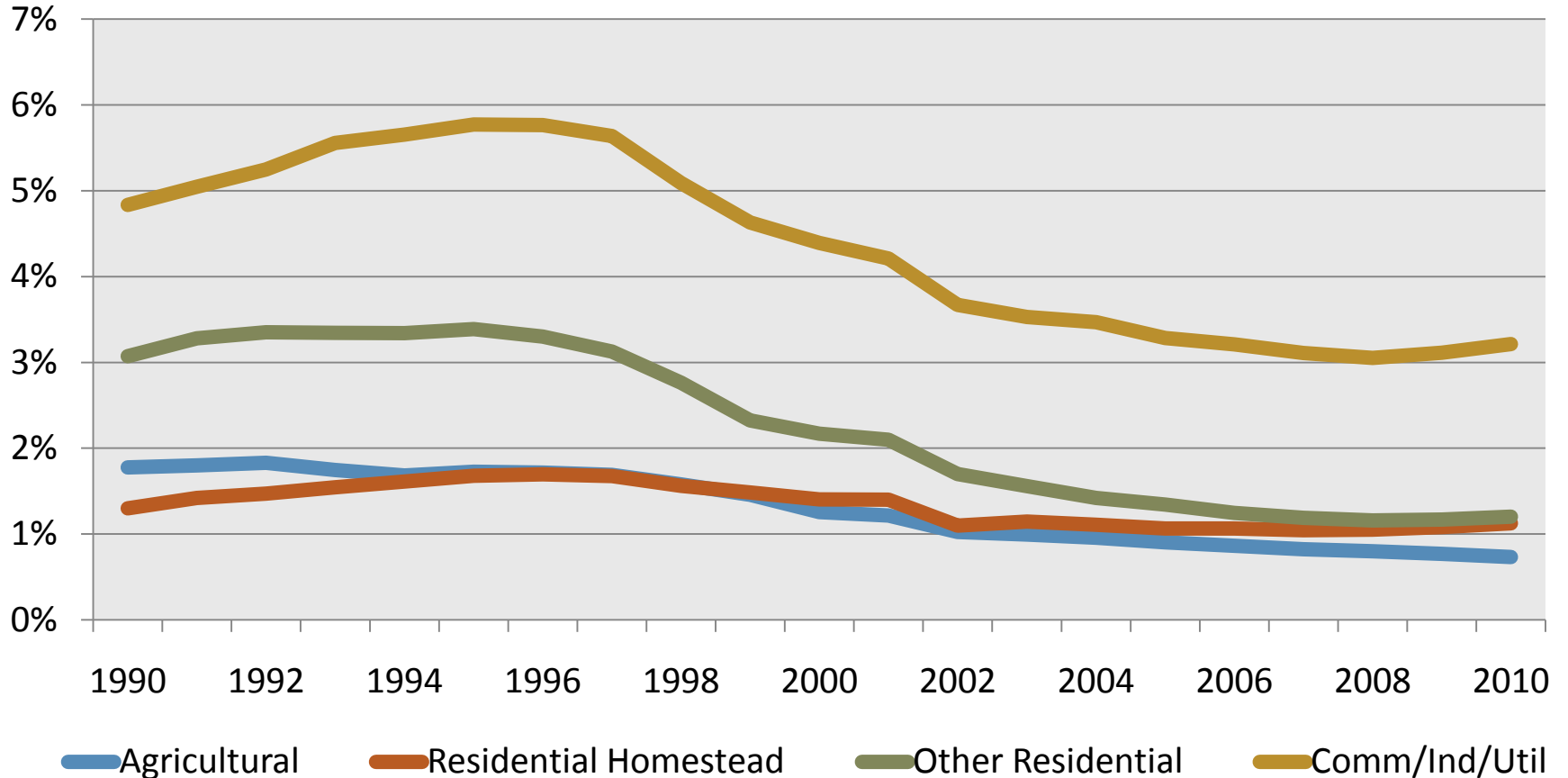
Market Value Trends

Market Value Percent Change by Class



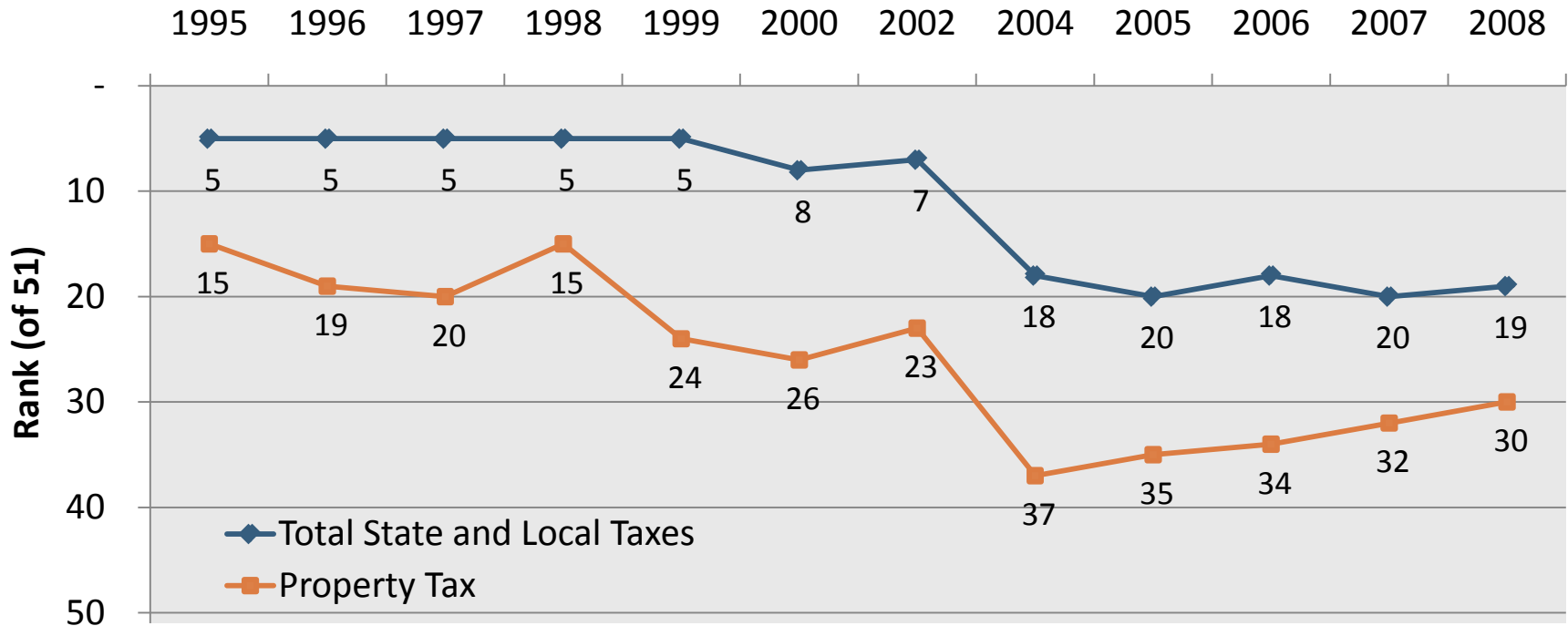
Effective Tax Rates

Effective Tax Rates by Class



State Tax Rankings

Minnesota's Tax Ranking State and Local Tax Collections as a Percent of Personal Income



Source: Census Bureau, Fiscal Year Data and MN Department of Revenue

**Data is unavailable for FY2001 & 2003. The U.S. Census Bureau did not publish state-by-state local government finances for those years.*

Tax Incidence Report

2011 Population Deciles – Amounts (\$Thousands) Property Tax Components

Population Decile	Income Range	Percent Share of Household Income	Property Tax as a % of Income	Total Tax as a % of Income
First	\$11,201 & Under	0.9%	8.45%	22.1%
Second	\$11,202 - \$18,454	2.0%	3.42%	11.2%
Third	\$18,455 - \$26,461	3.0%	3.91%	11.1%
Fourth	\$26,462 - \$35,169	4.1%	3.96%	11.7%
Fifth	\$35,170 - \$45,349	5.4%	4.51%	12.8%
Sixth	\$45,350 - \$58,040	6.9%	4.32%	12.5%
Seventh	\$58,041 - \$74,595	8.9%	4.18%	12.5%
Eighth	\$74,596 - \$96,681	11.5%	3.65%	12.1%
Ninth	\$96,682 - \$136,954	15.4%	3.50%	11.9%
Tenth	\$136,955 & Over	41.8%	2.25%	10.1%
TOTALS		100%	3.24%	11.4%
Top 5%	Over \$193,687	31.0%	1.93%	9.7%
Top 1%	Over \$481,439	16.0%	1.27%	8.8%

¹ Includes seasonal recreational residential (cabins).

Source: 2009 Tax Incidence Report,
MN Department of Revenue

Homestead Property Tax Burden Report

Homestead Tax Burden by Income

Income range*	Median burden before MVHC	Median burden before PTR	Median burden after PTR
\$10,000 - \$30,000	7.6	6.4	3.8
\$30,000 - \$45,000	4.8	4.2	3.3
\$45,000 - \$65,000	3.7	3.3	3.1
\$65,000 - \$90,000	3.1	2.8	2.8
\$90,000 - \$125,000	2.6	2.5	2.4
\$125,000 or more	1.9	1.8	1.8
Overall	3.3	3.0	2.8

**Homesteads with income under \$10,000 not shown due to data issues*

Tax Expenditure Report

Impact of Eliminating Property Classification on Tax Burdens

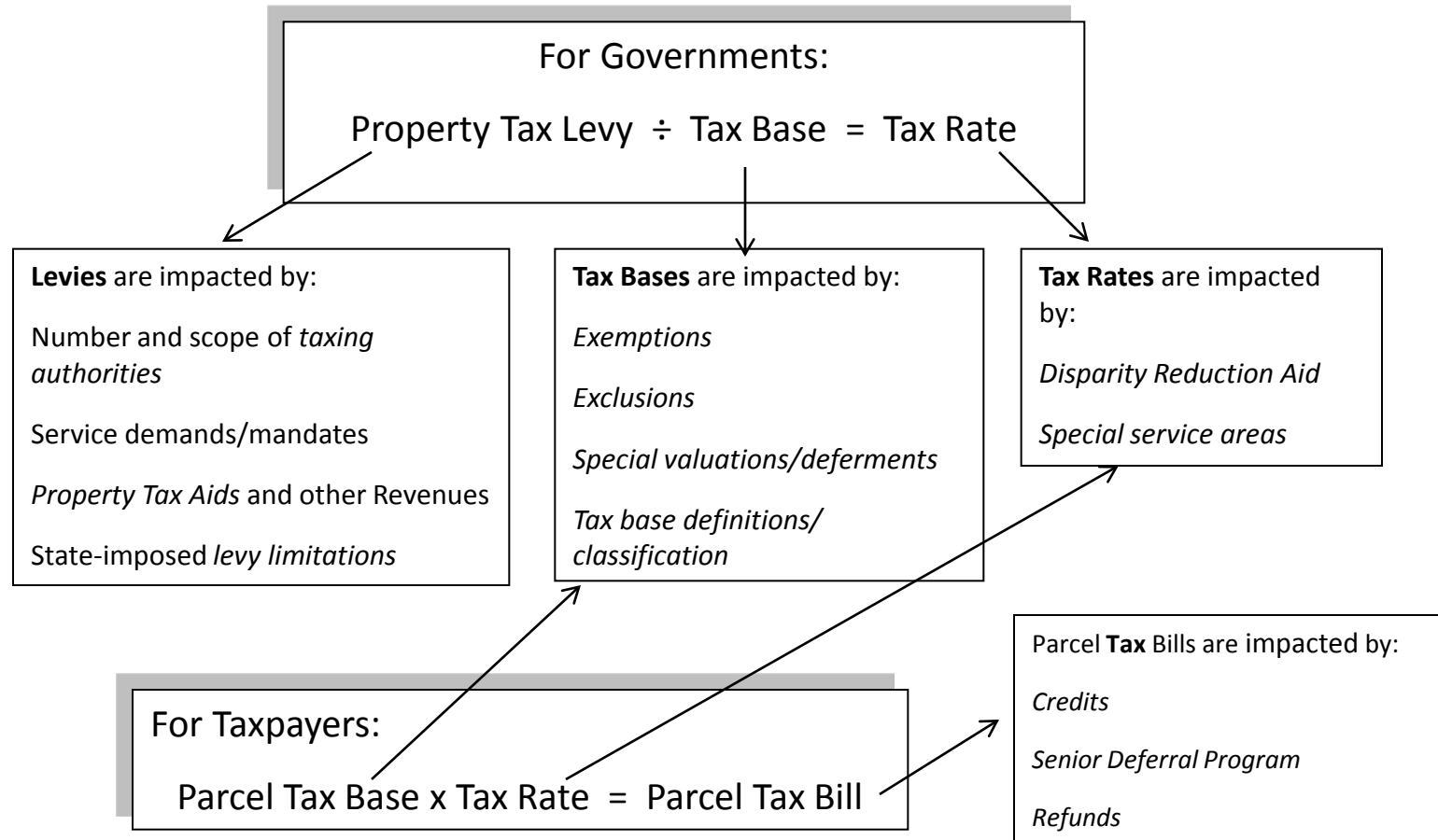
Type of Property	Estimated Tax Shift	Percent change
Residential Homestead	\$366 million	+10%
Farm Homestead	\$124 million	+43%
Residential Non-homestead	\$26 million	+5%
Farm Non-homestead	(\$8 million)	-5%
Apartments	(\$15 million)	-5%
Utility/personal	(\$63 million)	-25%
Commercial/Industrial	(\$437 million)	-18%

Other Indicators

- Assessment sales ratio study
- Local impact notes

Property Tax Inventory

Inventory Map



Levies by Authority

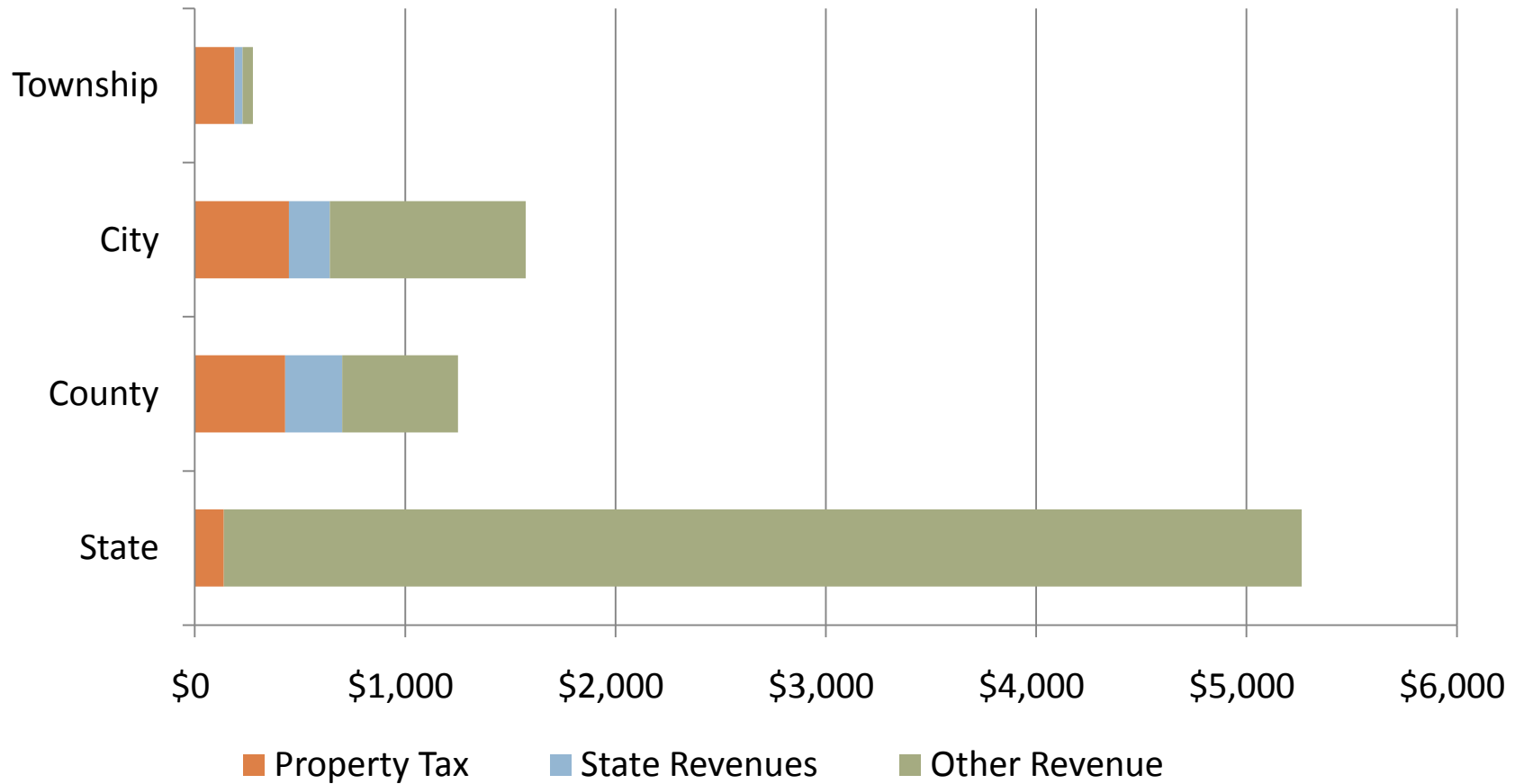
	Number of units	2010 Levy	Levy per capita
State	1	\$782	\$147
County	87	\$2,627	\$496
City	854	\$1,828	\$422
Township	1,802	\$211	\$217
School District	336	\$2,195	\$414
Special Taxing District	242	\$306	\$58
Tax Increment Financing (TIF) District	2,006	\$273	

Special Districts by Type

	2010 Levy	Count
Rail/Transit	89,070,135	15
HRA/EDA/Port Auth.	52,317,839	117
Met Council	50,405,774	3
Watershed/Water Mgmt	45,690,530	58
Suburban Hennepin County Parks	40,465,666	1
Hospital	6,761,840	14
Regional Development	3,071,598	11
Other	18,076,987	23
Total	305,860,369	242

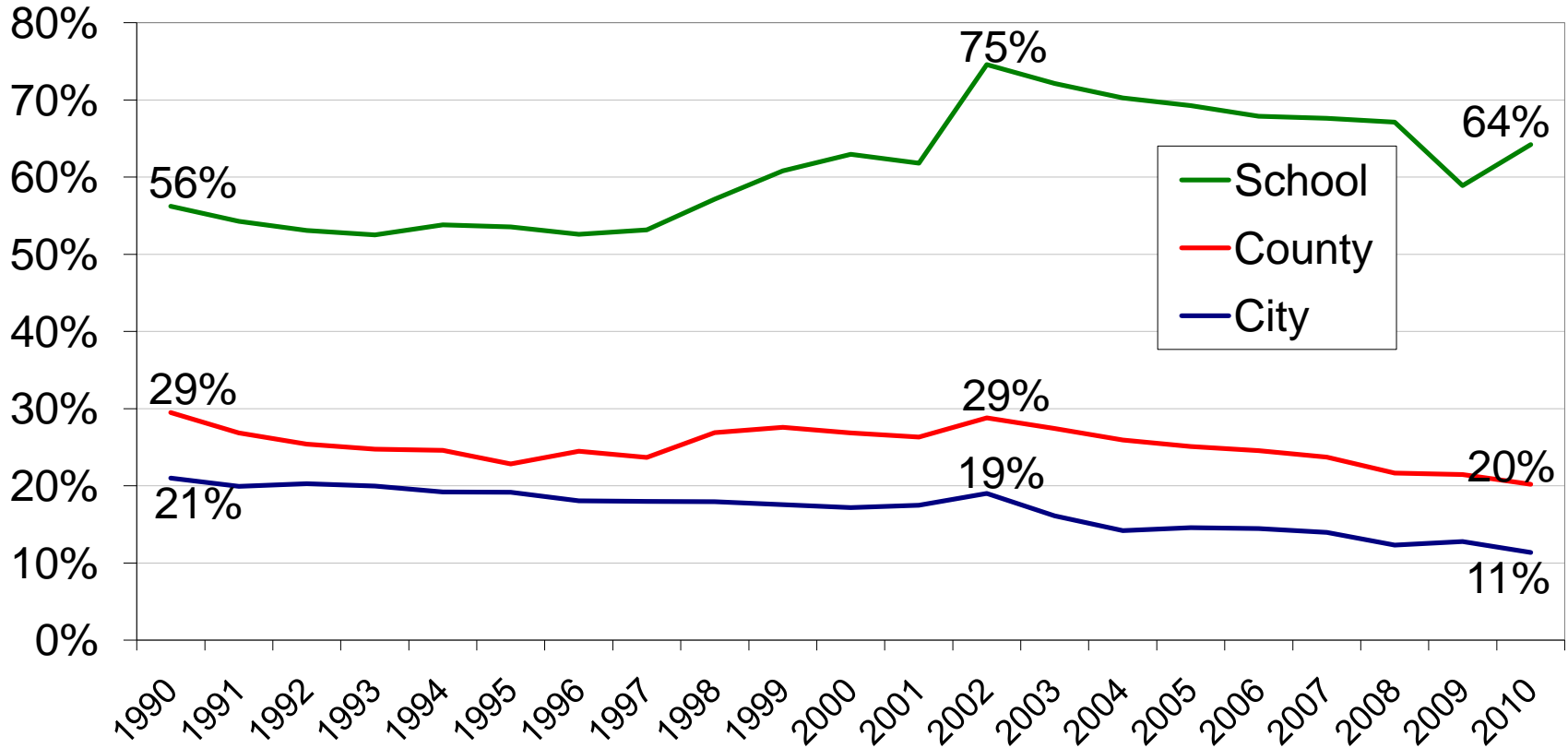
Property Tax Reliance

2008 Per Capita Revenues



State Aids

State Aid Share of Total Revenue



Tax Base Preferences

- Exemptions
- Exclusions
- Special valuation/deferments
- Tax base definitions

Tax Base Preferences: Exemptions

	# parcels	Value \$ million	% total
Public Property (Federal, state and local)	119,020	27,252	43.4%
K-12 Schools	6,166	13,529	21.6%
Church Property	13,496	6,624	10.6%
Colleges & Universities	2,467	6,539	10.4%
Hospitals	1,130	3,768	6.0%
Charitable Institutions / Nonprofits	4,513	2,607	4.2%
Native American Lands	3,328	1,124	1.8%
JOBZ Property	151	493	0.8%
Other	15140	791	1.2%
Total	165,411	62,727	100.0%

Tax Base Preferences: Exclusions

Exclusions	# parcels	\$ million	avg % excluded
This Old House	27,323	364	6%
Disabled Veterans	8,538	1,241	81%
Metro Vacant Land Plat Law	43,346	854	32%
Improvements to Certain Business Property	no data		
Homestead Property Damaged by Mold	no data		
Lead Hazard Properties	no data		

Tax Base Preferences: Special Valuation/Deferments

	# parcels	\$ million	avg % deferred
Open Space property	646	668	70%
Green Acres Program	64,758	7,228	36%
Rural Preserve Program	not yet in effect		
Aggregate Resources Preservation Property Tax Law	no participants		

Tax Base Preferences: Tax Bases

Levy	2010 Amount	Base
Local government spread levies	\$5,834 million	Net Tax Capacity (classification)
Referendum levies	\$794 million	Referendum Market Value (excludes cabins and some farm land)
State General levy	\$777 million	Only business and cabin property
Fiscal Disparities	\$524 million	Business property in metro and iron range
Tax Increment Financing	\$273 million	Properties in TIF districts, uses net tax capacity
Powerline	\$0.1 million	10% of net tax capacity of high voltage lines

Classification

- Most levies are spread on Net Tax Capacity, which is the taxable market value times a class rate.
- Agricultural and residential properties have lower class rates than business properties

Classification Rate Table for Assessment Year 2010

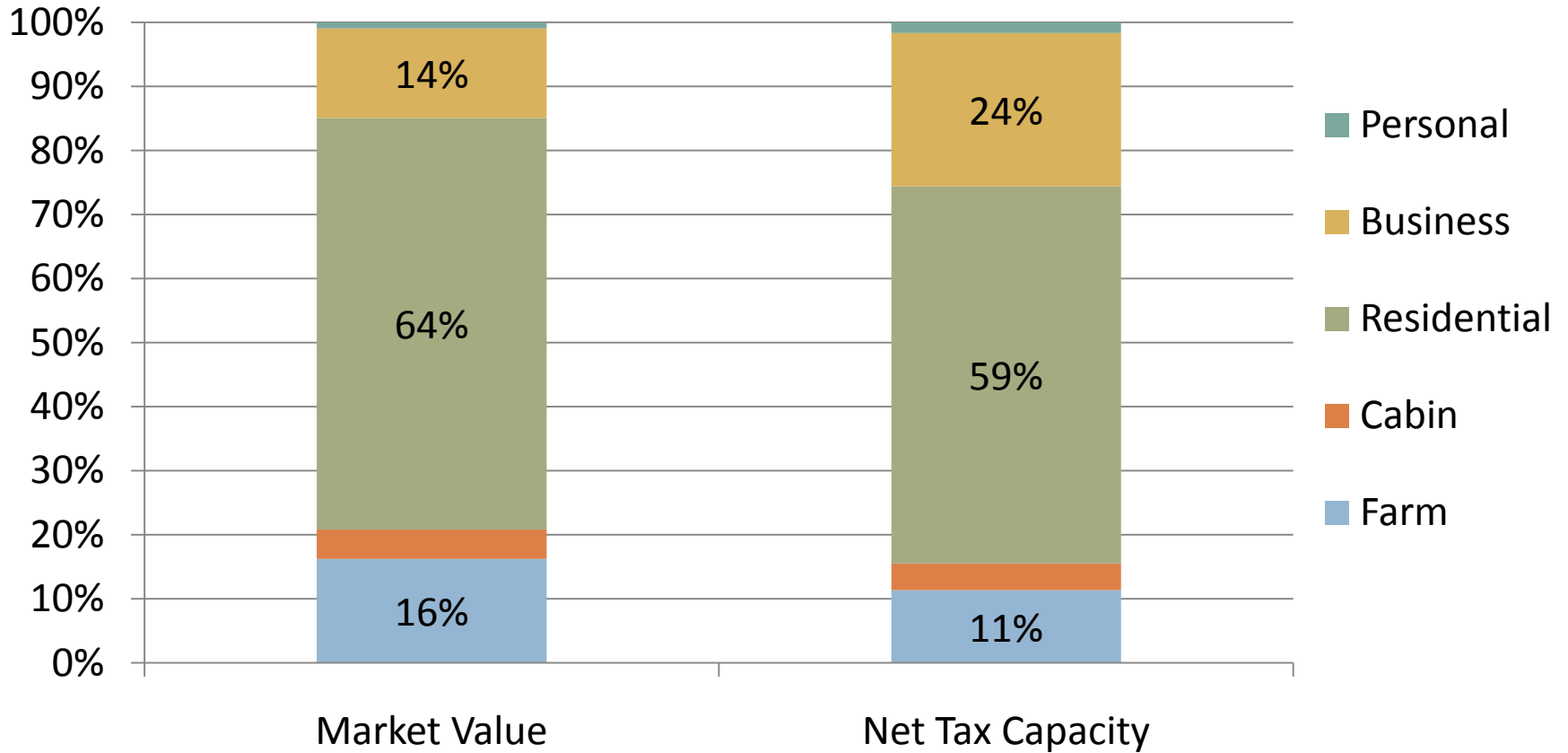
Class	Description	Tiers	Class Rate	State Rate
1a	Residential Homestead	First \$500,000	1.00%	NA
		Over \$500,000	1.25%	NA
1b	Blind/Disabled Homestead	First \$50,000	0.45%	NA
1c	Ma & Pa Resort	First \$600,000	0.50%	NA
		\$600,000 - \$2,300,000	1.00%	NA
		Over \$2,300,000	1.25%	1.25%
1d	Migrant Housing (Structures Only)	First \$500,000	1.00%	NA
		Over \$500,000	1.25%	NA
2a	Homestead House, Garage, One Acre (HGA)	First \$500,000	1.00%	NA
		Over \$500,000	1.25%	NA
2a/2b	1 st Tier Homestead Property	First \$1,140,000 (2a+2b)	0.50%	NA
2a/2b	Farming Entities Excess 1 st Tier (Unused From Hmstd)	Unused First \$1,140,000	0.50%	NA
2a	Agricultural Land (Hmstd Remainder & Non-Hmstd; Includes Structures)		1.00%	NA
2b	Rural Vacant Land (Hmstd Rem. & Non-Hmstd; Incl. Minor Ancil. Structures)		1.00%	NA
2c	Managed Forest Land		0.65%	NA
2d	Private Airport		1.00%	NA
2e	Land with a Commercial Aggregate Deposit		1.00%	NA
3a	Commercial/Industrial and Public Utility	First \$150,000	1.50%	1.50%
		Over \$150,000	2.00%	2.00%
		Electric Generating Public Utility Machinery	2.00%	NA
		All Other Public Utility Machinery	2.00%	2.00%
		Transmission Line Right-Of-Way (Owned in fee by a utility)	2.00%	2.00%
3b	Employment Property (Border City Zones)	First \$150,000	1.50%	1.50%
		Over \$150,000	2.00%	2.00%

4a	Apartment (4+ Units, Including Private For-Profit Hospitals)		1.25%	NA
4b(1)	Residential Non-Homestead (1-3 Units Not 4bb or SRR)		1.25%	NA
4b(2)	Unclassified Manufactured Home		1.25%	NA
4b(3)	Ag Non-Homestead (2 or 3 Units, Garage, One Acre)		1.25%	NA
4b(4)	Unimproved Residential		1.25%	NA
4bb(1)	Residential Non-Homestead (Single Unit)	First \$500,000	1.00%	NA
		Over \$500,000	1.25%	NA
4bb(2)	Ag Non-Homestead (Single Unit, Garage, One Acre)	First \$500,000	1.00%	NA
		Over \$500,000	1.25%	NA
4c(1)	Seasonal Residential Recreational (SRR) Commercial (Resort)	First \$500,000	1.00%	1.00%
		Over \$500,000	1.25%	1.25%
	Non-Commercial (Cabin)	First \$76,000	1.00%	0.40%
		\$76,000 - \$500,000	1.00%	1.00%
		Over \$500,000	1.25%	1.25%
4c(2)	Qualifying Golf Course		1.25%	NA
4c(3)(i)	Non-Profit Comm. Service Oriented Organization (Non-Revenue)		1.50%	NA
4c(3)(ii)	Non-Profit Comm. Service Oriented Organization (Donations)		1.50%	1.50%
4c(4)	Post-Secondary Student Housing		1.00%	NA
4c(5)(i)	Manufactured Home Park		1.25%	NA
4c(5)(ii)	MH Park Cooperative (Over 50% Shareholder Occupied)		0.75%	NA
4c(5)(ii)	MH Park Cooperative (50% or Less Shareholder Occupied)		1.00%	NA
4c(6)	Metro Non-Profit Recreational Property		1.25%	NA
4c(7)	Certain Non-Comm Aircraft Hangars and Land: Leased Land		1.50%	NA
4c(8)	Certain Non-Comm Aircraft Hangars and Land: Private Land		1.50%	NA
4c(9)	Bed and Breakfast (Up To 5 Units)		1.25%	NA
4c(10)	Seasonal Restaurant on a Lake		1.25%	NA
4c(11)	Marina	First \$500,000	1.00%	NA
		Over \$500,000	1.25%	NA
4d	Qualifying Low-Income Rental Housing		0.75%	NA
5(1)	Unmined Iron Ore and Low-Grade Iron-Bearing Formations	2.00%	2.00%	
5(2)	All Other Property Not Otherwise Classified		2.00%	NA

Classification

	Class rates	Market Value	Net Tax Capacity
Farm	.45% to 1%	94,678,815,078	743,662,192
Cabin	1% to 1.25%	26,822,154,620	272,956,278
Residential	.45% to 1.25%	374,582,021,423	3,850,304,908
Business	.5% to 2%	81,614,838,704	1,565,708,423
Personal	1% to 2%	5,510,839,650	108,249,887
Total		583,208,669,475	6,540,881,688

Classification



Tax Rate Preferences

- Disparity Reduction Aid
- Rural/urban service districts
- Subordinate service districts

Tax Preferences

- Credits
- Senior Deferral Program
- Refunds

Tax Preferences: Credits

	# receiving	\$(000)	\$ avg.
Market Value Homestead Credit	1,417,268	278,581	197
Market Value Ag Land Credit	96,289	23,914	248
Powerline Credit	1,718	80	47
Disparity Reduction Credit	1,356	5,134	3,786
Disaster Credit	388	86	222
Local Option Disaster Credit	5	2	400
County Conservation Credit	1,530	199	130
Ag Preserves Credit	2,949	439	149
Taconite Homestead Credit	39,148	11,418	292
Supplemental (Taconite) Homestead Credit	18,930	5,215	275
Bovine Tuberculosis Credit	1,462	431	295

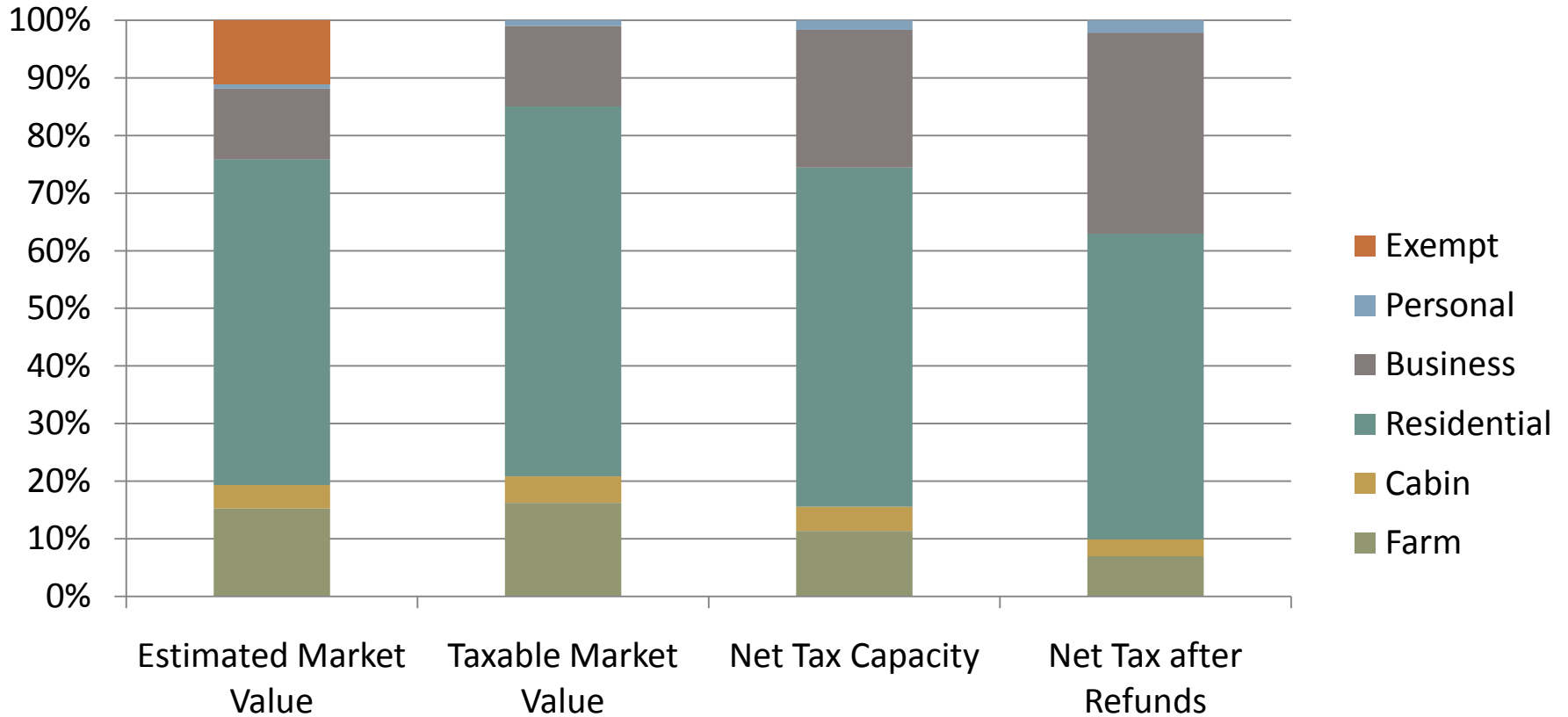
Tax Preferences: Senior Deferral

- Eligible senior homesteaders may defer a portion of their tax bill until property is transferred
- Deferred taxes become a lien on the property
- State reimburses counties for deferred taxes
- 273 homesteads currently participate
- \$838,000 of deferral in 2010 (average \$3,000 per homestead)

Tax Preferences: Refunds

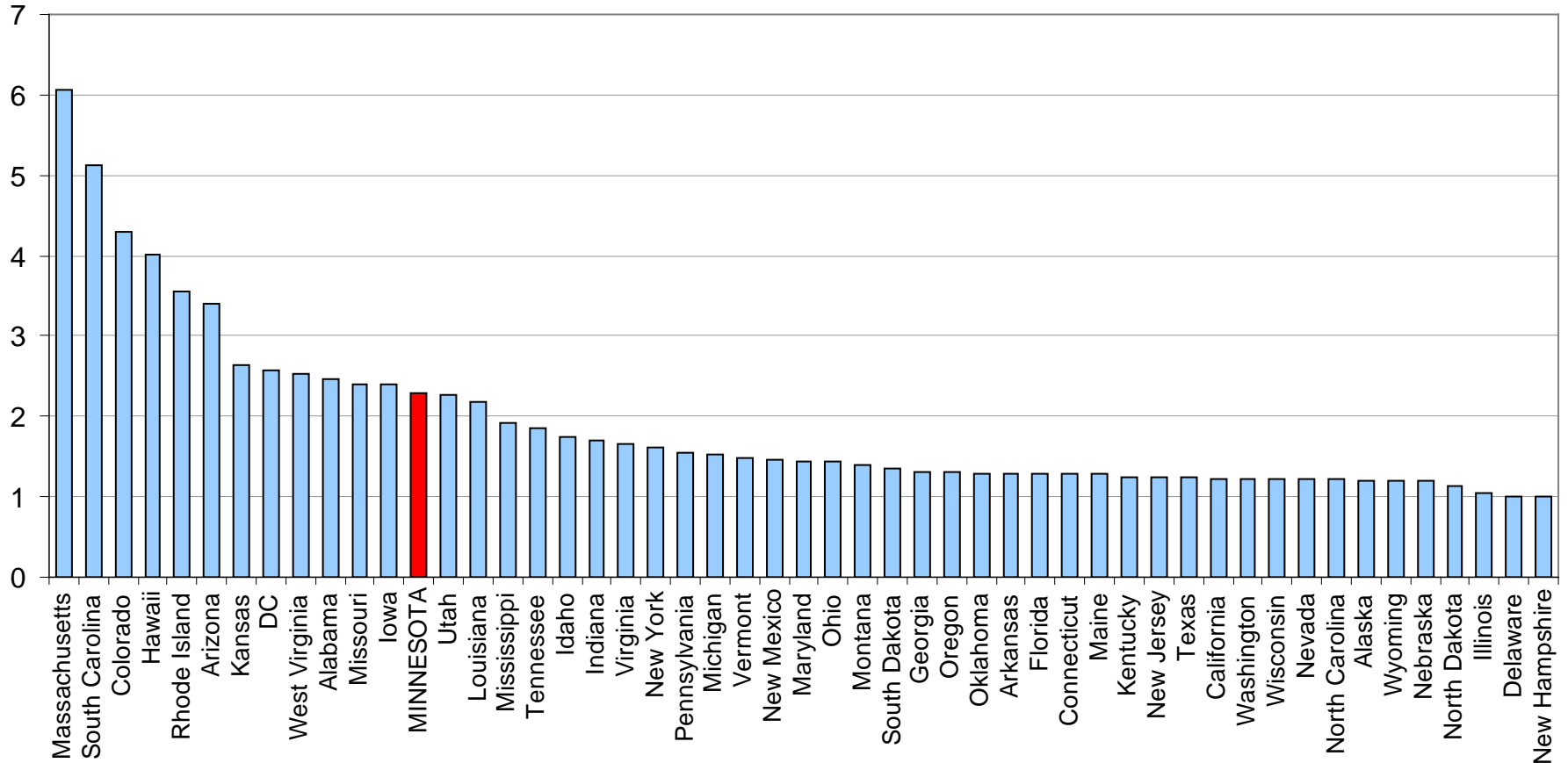
	# claims	\$ million	avg. refund
Property Tax Refund – Homeowner	404,700	\$293	\$725
Property Tax Refund – Renter	316,400	\$187	\$590
Property Tax Refund – Targeting	57,800	\$7	\$129
Forest Land Refunds (SFIA)	1,350	\$7	\$5,173

Property Tax Preferences: Estimated Market Value to Net Tax



Commercial to Homestead Property Tax Ratio

Based on \$300,000 urban property



Questions?